

Ludington Area School District

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2006

Ludington Area School District

**TABLE OF CONTENTS**

Management’s Discussion and Analysis.....	i - viii
Independent Auditors’ Report.....	1
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets.....	2
Statement of Activities .....	3
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	4
Reconciliation of the Governmental Funds Balance Sheet	
to the Statement of Net Assets .....	5
Statement of Revenues, Expenditures and Changes	
in Fund Balances .....	6
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures and Changes in Fund Balances to the Statement	
of Activities .....	7
Statement of Fiduciary Assets and Liabilities.....	8
Notes to Financial Statements .....	9
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund .....	24

# **Ludington Area School District**

---

## **Management's Discussion and Analysis**

Ludington Area School District (School District), a public K-12 education institution, is located in Ludington, Michigan. Management's Discussion and Analysis, a requirement of GASB 34, is intended to be Ludington Area School's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

### **Using this Annual Report:**

This annual report consists of a series of financial statements and notes to those statements, designed by the Ludington Area Schools and its agents for ease of use and effective encoding of critical financial information.

The district-wide financial statements provide information about the activities of the School District in total and its long-term position. The fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's larger individual funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students.

### **Reporting the School District as a Whole – District-wide Financial Statements:**

The district-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way to provide an easy-to-understand overview of the School District's financial position and results of operations for the year. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, similar to the accounting used by the private-sector. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the Statement of Net Assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results.

The Statement of Net Assets and Statement of Activities report the governmental activities of the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics and food service. Property taxes, state aid, and federal grants finance most of these activities.

### **Reporting the School District's Most Significant Funds – Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and bond covenants. However, the School District has established other funds to help it control and manage money for particular purposes. The governmental funds of the School District use the following accounting approach:

Governmental funds: All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship or differences between governmental activities reported in the fund financial statements and the district-wide financial statements in reconciliation schedules.

### **The School District as Trustee – Reporting the School District's Fiduciary Responsibilities:**

The School District serves as a trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because these assets cannot be used to finance operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The School District as a Whole:**

Note that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2006 and 2005.

**Statement of Net Assets**

TABLE 1	June 30, 2006	June 30, 2005
	Governmental Activities ( in millions )	Governmental Activities ( in millions )
Assets		
Current and other assets	\$ 5.7	\$ 8.1
Capital assets, net of accumulated depreciation	<u>17.9</u>	<u>16.4</u>
Total assets	23.6	24.5
Liabilities		
Current liabilities	2.8	3.1
Long-term liabilities	<u>10.1</u>	<u>10.4</u>
Total liabilities	<u>12.9</u>	<u>13.5</u>
Net Assets		
Invested in capital assets, net of debt	8.6	8.5
Restricted	0.8	0.5
Unrestricted	<u>1.3</u>	<u>2.0</u>
Total net assets	\$ <u><u>10.7</u></u>	\$ <u><u>11.0</u></u>

The aforementioned analysis focuses on our Statement of Net Assets (see Table 1). Current and other net assets decreased by 2.4 million dollars due to ongoing construction activities. As a result of these construction activities capital assets increased. The School District has a total net asset balance of \$10.7 million. Of this amount, \$1.3 million represents unrestricted net assets of governmental activities.

The Statement of Activities for the School District is summarized below:

**Statement of Governmental Activities**

TABLE 2	June 30, 2006 Governmental Activities (in millions)	June 30, 2005 Governmental Activities (in millions)
Program Revenues		
Charges for Services	\$ 1.3	\$ 1.0
Operating Grants	2.7	3.3
General Revenues		
Property taxes	11.8	11.4
Grants and Contributions Not Restricted to Specific Programs	6.6	6.3
Miscellaneous	0.4	0.3
Total Program Revenues and General Revenues	22.8	22.3
Expenses		
Instruction	14.8	14.5
Support Services	5.9	5.8
Community Services	0.1	0.1
Food Services	0.6	0.6
Athletics	0.5	0.4
Interest on Long-term Debt	0.4	0.4
Unallocated Depreciation and Amortization	0.8	0.4
Total Governmental Activities	23.1	22.2
Change in Net Assets	(0.3)	0.1
Net Assets at Beginning of Year	11.0	10.9
Net Assets at End of Year	\$ 10.7	\$ 11.0

The results of the School District's operations for the years ended June 30, 2006 and 2005 are reported in this Statement of Governmental Activities.

As reported in the Statement of Governmental Activities, the revenues for all our governmental activities this year were \$22.8 million. The School District experienced an increase in instruction expenditures due to normal salary and wage increases along with increases in health insurance and retirement costs. These costs were partially offset by staff reductions.

# Ludington Area School District

## Management's Discussion and Analysis

### The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for specific purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

The following is a summary of changes in fund balances within the individual funds.

#### **Major Funds:**

- The General Fund reflects a fund balance decrease of \$424,624. The prior year decreased by \$592,427. Revenues increased by approximately 1.5% for 2005/06, while expenditures increased by 1.6% from prior year levels. Overall salary and wage costs increased during the year. Also, the retirement rate went up about 10 percent, or almost \$200,000. These cost increases were offset through staff reductions.
- The School District was approved to establish a 10-year sinking fund for the maintenance of buildings throughout the School District. Approximately \$101,000 was spent during 2005/06 on improvements.

#### **Other Governmental Funds:**

- The capital project fund is a construction fund financed by a \$10.155 million bond. We have spent more than \$10.5 million through June 30, 2006. All scheduled work was completed by June 30, 2006 and the ending fund balance was \$96,860.
- The School Service Funds experienced a fund balance increase of approximately \$13,400, due to fiscal restraint on the part of the department managers.
- The Debt Service Funds has a fund balance of \$179,094, comprised solely of excess revenues from the annual property tax levy for the 2003 Building and Site Funds. The General Fund transfers money to the Debt Service Funds in order to pay debt principal and interest relative to the other issues.

### Governmental Fund Budgetary Analysis

The following tables show the original and final approved budgets for the 2005/06 School Year, as well as the actual expenses for the general operating fund.

TABLE 3 **General Fund Revenues**

ACCOUNT CODE	REVENUES	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL REVENUES
100	Local	\$ 10,814,016	\$ 11,177,701	\$ 11,226,420
300	State	8,089,443	7,900,591	7,874,098
400	Federal	933,519	1,146,815	1,065,575
500	Incoming transfers and transactions	381,572	1,873,880	574,227
	Total Revenues	\$ 20,218,550	\$ 22,098,987	\$ 20,740,320

**DISCUSSION AND ANALYSIS:**

Property valuations increased more than expected relative to local revenues, and interest revenues were more than expected. The State revenue decreased in proportion to the property tax revenue increase. Federal assistance increased primarily because of a new grant for our alternative education program (\$200,000). The difference in other revenue is largely due to our including an MMBA loan in the amount of \$1.3 million in the final amended budget. This MMBA loan was not considered a revenue in the actual revenues.

**TABLE 4 General Fund Expenses**

ACCOUNT CODE	DESCRIPTION	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL EXPENSES
	Instruction			
110	Basic Programs	\$ 11,077,229	\$ 11,332,804	\$ 11,336,930
120	Added Needs	3,316,030	3,286,645	3,390,970
	Support Services			
210	Pupil	598,276	602,101	585,314
220	Instructional	492,615	503,115	446,101
230	General	285,267	269,928	256,247
240	Administration School	1,262,912	1,226,457	1,142,998
250	Administration Business	506,148	502,248	523,212
260	Operations/Maintenance	2,032,178	2,123,778	2,028,284
270	Transportation	822,255	842,255	828,613
280	Central Services	61,200	86,800	73,360
300	Community Services	68,996	68,996	66,721
500	Transfers and Other	475,000	1,828,000	486,509
	Total expenditures	20,998,106	22,673,127	21,165,259
	Excess revenue over (under) expenditures	\$ (779,556)	\$ (574,140)	\$ (424,939)



**DISCUSSION AND ANALYSIS:**

Our original budget increased significantly because we were not approved for the MMBA loan until after we presented the original budget. Otherwise, there were no surprises regarding additional expenses. Budget efficiency factor: 99.04%.

**Capital Asset and Debt Administration****Capital Assets**

At June 30, 2006, the School District had an increase in capital assets over the previous fiscal year as shown below.

	<u>2006</u>	<u>2005</u>
Land and land improvements	\$ 1,105,433	\$ 1,105,433
Buildings and improvements	15,238,908	6,529,167
Furniture and equipment	1,330,563	1,397,167
Vehicles	123,022	186,804
Construction-in-Progress	<u>53,003</u>	<u>7,172,138</u>
Total capital assets, net of depreciation	<u>\$ 17,850,929</u>	<u>\$ 16,390,709</u>

This year's additions were almost entirely because of continued renovation at the High School Complex. The increase reflects work done relative to the \$10.155 million bonds issued for renovations at the secondary complex. The scheduled renovations were completed prior to June 30, 2006. The amount reported as Construction in progress for last year was moved to the Buildings and improvements category for the current year.

**Long-term Debt**

At June 30, 2006, the School District had \$10,532,687 in outstanding debt. This debt consists of the following:

	<u>2006</u>	<u>2005</u>
Bonds	\$ 9,310,000	\$ 9,670,000
Unamortized premium	220,584	238,143
Durant Bonds	163,372	176,765
Other debt	48,433	164,111
Compensated absences	<u>790,298</u>	<u>695,700</u>
Total Debt	<u>\$ 10,532,687</u>	<u>\$ 10,944,719</u>

The School District is only obligated to make the annual payments on the Durant Bonds to the extent of annual State of Michigan school aid appropriations.

### **Economic Factors and Next Year's Budgets**

All K-12 public schools receive a per pupil financial allowance by the State of Michigan. Local funds are collected on non-homestead property, and the difference between that amount and the amount guaranteed by the State of Michigan for the number of students enrolled is made up by the State. The School District continues to receive more of its foundation allowance from local property tax revenue than the average State-wide. This disparity continues to widen, due to decreasing student enrollment and increasing property values.

The per-pupil allocation paid by the State of Michigan to local school districts increased by \$175 for 2005/06, while health insurance costs increased about 4 percent. Our school district continued a physicians preferred health plan for its employees which has had a modest increase in cost. The percentage paid by local school districts to the State retirement fund increased by 10 percent for the 2005/06 school year and is increasing another 8.6 percent for the 2006/07 school year.

The School District continues to face a number of difficult trends such as an economic downturn that limits revenue while cost levels continue to increase, a general decline in student population, increased professional development needs due to the requirements of No Child Left Behind Act and other legislation, changes in special education laws and increased emphasis on early identification of children with special needs, to name just a few. All of these factors have an economic impact on our organization.

The Michigan legislature is tentatively going to approve a per pupil increase of \$210 for 2006/07. This will help offset the 8.6 percent raise in the retirement rate for the upcoming year. We are introducing a Health Savings Account (HSA) plan for administrators and non-union employees receiving health coverage, and we expect to decrease our costs for those covered.

As a result of all the items noted above, the School District adopted its fiscal year 2006/2007 budget calling for a decrease in fund balance of approximately \$127,000.

The School District has completed its high school remodeling project within budget. We were able to authorize additional work beyond the scope of the bond proposal passed by the electorate in 2003. This work entailed painting, additional HVAC work, additional carpeting, installation of windows in the band room, and remodeling the old automobile lab into a health area.

The School District's Building and Site Fund will be used to renovate the upstairs of a building originally built in 1925. This construction will be done without the use of any debt instrument, and will be completed for the 2008/09 school year.

### **Contacting the School District's Financial Management**

This financial report is designed to provide a general overview of the Ludington Area School District's finances for all those interested in the School District's finances. If you have questions about this report or need additional information, contact the Central Business Office, 809 E. Tinkham Ave., Ludington, Michigan 49431.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 18, 2006

Board of Education  
Ludington Area School District  
Ludington, Michigan 49431

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ludington Area School District (School District), as of and for the year ended June 30, 2006, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ludington Area School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ludington Area School District, as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated September 18, 2006, on our consideration of Ludington Area School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - viii and page 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ludington Area School District  
**STATEMENT OF NET ASSETS**  
June 30, 2006

	Governmental activities
<hr/>	
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,154,280
Investments	587,067
Receivables	29,368
Due from other governmental units	1,586,827
Prepaid items	269
Inventories	7,083
	<hr/>
Total current assets	5,364,894
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	1,158,436
Depreciable	16,692,493
Bond issuance costs, net	185,504
Note receivable	163,372
	<hr/>
Total noncurrent assets	18,199,805
	<hr/>
Total assets	23,564,699
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	2,177,042
Due to other governmental units	132,341
Deferred revenue	4,620
Bonds and other obligations, due within one year	465,000
	<hr/>
Total current liabilities	2,779,003
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	10,067,687
	<hr/>
Total liabilities	12,846,690
	<hr/>
NET ASSETS	
Invested in capital assets, net of related debt	8,554,276
Restricted	
Debt service	109,837
Capital projects	710,228
Unrestricted	1,343,668
	<hr/>
Total net assets	\$ 10,718,009
	<hr/>

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2006

<b><i>Functions/Programs</i></b>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
Governmental activities				Governmental activities
Instruction	\$ 14,794,925	\$ 575,196	\$ 2,083,239	\$ (12,136,490)
Support services	5,907,638	327,630	249,295	(5,330,713)
Community services	66,721	39,604	-	(27,117)
Food services	590,025	209,811	385,905	5,691
Athletics	456,216	96,773	-	(359,443)
Interest on long-term debt	407,545	-	19,430	(388,115)
Unallocated depreciation and amortization	846,607	-	-	(846,607)
Total governmental activities	<u>\$ 23,069,677</u>	<u>\$ 1,249,014</u>	<u>\$ 2,737,869</u>	(19,082,794)
General revenues				
Property taxes levied for				
General purposes				10,542,790
Debt service				1,288,304
Grants and contributions not restricted to specific programs				6,628,747
Investment earnings				330,125
Miscellaneous				<u>22,124</u>
Total general revenues				<u>18,812,090</u>
Change in net assets				(270,704)
Net assets at July 1, 2005				<u>10,988,713</u>
Net assets at June 30, 2006				<u>\$ 10,718,009</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**BALANCE SHEET**  
Governmental Funds  
June 30, 2006

	General Fund	Sinking Fund	Capital Project Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,186,381	\$ 720,491	\$ 33,884	\$ 213,524	\$ 3,154,280
Investments	517,576	-	69,491	-	587,067
Receivables	28,908	-	-	460	29,368
Due from other governmental units	1,581,728	-	-	5,099	1,586,827
Due from other funds	6,515	-	-	10,284	16,799
Prepaid items	269	-	-	-	269
Inventories	-	-	-	7,083	7,083
Total assets	<u>\$ 4,321,377</u>	<u>\$ 720,491</u>	<u>\$ 103,375</u>	<u>\$ 236,450</u>	<u>\$ 5,381,693</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 218,078	\$ 10,263	\$ -	\$ 1,812	\$ 230,153
Accrued liabilities	1,871,245	-	-	6,387	1,877,632
Due to other governmental units	132,341	-	-	-	132,341
Due to other funds	10,284	-	6,515	-	16,799
Deferred revenue	4,620	-	-	-	4,620
Total liabilities	<u>2,236,568</u>	<u>10,263</u>	<u>6,515</u>	<u>8,199</u>	<u>2,261,545</u>
Fund balances					
Reserved					
Prepaid items	269	-	-	-	269
Inventories	-	-	-	7,083	7,083
Debt service	-	-	-	179,094	179,094
Capital projects	-	710,228	96,860	-	807,088
Unreserved					
Undesignated					
General Fund	2,084,540	-	-	-	2,084,540
Special revenue funds	-	-	-	42,074	42,074
Total fund balances	<u>2,084,809</u>	<u>710,228</u>	<u>96,860</u>	<u>228,251</u>	<u>3,120,148</u>
Total liabilities and fund balances	<u>\$ 4,321,377</u>	<u>\$ 720,491</u>	<u>\$ 103,375</u>	<u>\$ 236,450</u>	<u>\$ 5,381,693</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2006

Total fund balance—governmental funds	\$	3,120,148
---------------------------------------	----	-----------

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not current financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 25,764,125	
Accumulated depreciation	<u>(7,913,196)</u>	17,850,929

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	213,019	
Accumulated amortization	<u>(27,515)</u>	185,504

Other long-term note receivable in governmental activities is not reported in the  
governmental funds.

163,372

Accrued interest in governmental activities is not reported in the governmental funds.

(69,257)

Premium on bonds payable is not capitalized and amortized in the governmental funds.

Bond premium	(263,384)	
Accumulated amortization	<u>42,800</u>	(220,584)

Long-term liabilities in governmental activities are not due and payable in the  
current period and are not reported in the governmental funds.

Bonds and notes payable	(9,521,805)	
Compensated absences	<u>(790,298)</u>	<u>(10,312,103)</u>

Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>10,718,009</u></u>
--	----	--------------------------

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2006

	General Fund	Sinking Fund	Capital Project Fund	Other governmental funds	Total governmental funds
<b>REVENUES</b>					
Local sources					
Property taxes	\$ 10,542,790	\$ 447,472	\$ -	\$ 840,832	\$ 11,831,094
Investment earnings	280,427	10,904	34,995	3,800	330,126
Fees and charges	273,399	-	-	306,584	579,983
Other	129,804	-	22,124	-	151,928
Total local sources	11,226,420	458,376	57,119	1,151,216	12,893,131
State sources	7,874,098	-	-	58,118	7,932,216
Federal sources	1,065,575	-	-	347,217	1,412,792
Total revenues	20,166,093	458,376	57,119	1,556,551	22,238,139
<b>EXPENDITURES</b>					
Instruction	14,727,900	-	-	-	14,727,900
Support services	5,884,129	-	-	-	5,884,129
Community services	66,721	-	-	-	66,721
Food services	-	-	-	595,438	595,438
Athletics	-	-	-	456,216	456,216
Debt service					
Principal	-	-	-	489,071	489,071
Interest and other charges	-	-	-	418,225	418,225
Capital projects	-	111,135	2,186,216	-	2,297,351
Total expenditures	20,678,750	111,135	2,186,216	1,958,950	24,935,051
Excess (deficiency) of revenues over (under) expenditures	(512,657)	347,241	(2,129,097)	(402,399)	(2,696,912)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer from other governmental units and other transactions	574,227	-	-	-	574,227
Transfers in	-	-	-	486,509	486,509
Transfers out	(486,509)	-	-	-	(486,509)
Total other financing sources (uses)	87,718	-	-	486,509	574,227
Net change in fund balances	(424,939)	347,241	(2,129,097)	84,110	(2,122,685)
Fund balances at July 1, 2005	2,509,748	362,987	2,225,957	144,141	5,242,833
Fund balances at June 30, 2006	\$ 2,084,809	\$ 710,228	\$ 96,860	\$ 228,251	\$ 3,120,148

The accompanying notes are an integral part of this statement.



Ludington Area School District  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	(2,122,685)
--	----	-------------

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures;  
in the Statement of Activities these costs are depreciated and amortized over their estimated  
useful lives, respectively.

Depreciation and amortization expense	\$	(857,258)	
Capital outlay		2,306,827	1,449,569

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		(13,393)
---	--	----------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		489,070
---	--	---------

Bond premiums are amortized over time in the Statement of Activities, but are recorded in full in the year received in the governmental funds.		17,559
---	--	--------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		3,773
---	--	-------

Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds		(94,597)
--	--	----------

Change in net assets of governmental activities	\$	(270,704)
---	----	-----------

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2006

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>213,375</u>
 LIABILITIES	
Deposits held for others	\$ <u>213,375</u>

The accompanying notes are an integral part of this statement.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Ludington Area School District (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

***District-wide and Fund Financial Statements***

**District-wide Financial Statements** – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***District-wide and Fund Financial Statements—Continued***

**Fund financial statements** – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental funds** – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *Sinking Fund* accounts for the sinking fund property taxes received as part of the acquisition of fixed assets or construction of major capital projects.
- The *Capital Project Fund* is the School District's bond construction fund. It accounts for all the financial resources and expenditures related to the 2003 bond issue.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**Fiduciary funds** – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

***Measurement Focus, Basis of Accounting and Basis of Presentation***

**Accrual Method**

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Basis of Presentation—Continued*

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30, 2006 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies*

**Deposit and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

**Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

**Property Taxes**

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the School District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.0
Debt Service Fund—Homestead/Non-homestead	.94
Sinking Fund—Homestead/Non-homestead	.50

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Other Accounting Policies—Continued***

**Inventories**

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	50 years
Buses and other vehicles	7 years
Furniture and other equipment	5 to 20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

**Compensated Absences**

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Other Accounting Policies—Continued*

**Deferred Revenue**

Deferred revenue arises when assets are recorded before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

**Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Net Assets In District-wide Financial Statements**

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

**Fund Equity In Fund Financial Statements**

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.



Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The School District does not consider these amendments to be significant.

**Excess of Expenditures Over Appropriations**

For the year ended June 30, 2006, expenditures exceeded appropriations in added needs by \$104,325. These over expenditures were funded by greater than anticipated local revenue in the General Fund.

**School Bond Construction Compliance**

The 2004 Capital Projects Fund includes capital project activities funded with bonds dated and issued November 19, 2003. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2004 Capital Projects Fund from the inception of the fund through June 30, 2006.

	<u>Capital Project Fund</u>
Revenue and bond proceeds	\$ 10,749,998
Expenditures	10,653,138

**Sinking Fund**

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2006, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Money market mutual fund	\$ 69,491	34	AAA	9 %
External investment pool	765,000	30	not rated	91
Total fair value	<u>\$ 834,491</u>			<u>100 %</u>
Portfolio weighted average maturity		<u>30</u>		

The School District voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan school districts. The Pool is not regulated nor registered with the SEC. The fair value of the School District's investments is the same as the fair value of the Pool.

**Interest rate risk.** The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$3,043,579 of the School District's bank balance of \$3,343,579 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The School District is not authorized to invest in investments which have this type of risk.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<b>Capital assets, not being depreciated:</b>				
Land	\$ 914,933	\$ -	\$ -	\$ 914,933
Land improvements	190,500	-	-	190,500
Construction in progress	<u>7,172,138</u>	<u>53,003</u>	<u>7,172,138</u>	<u>53,003</u>
Total capital assets, not being depreciated	8,277,571	53,003	7,172,138	1,158,436
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	11,180,087	9,326,286	-	20,506,373
Furniture and equipment	2,692,931	99,676	-	2,792,607
Vehicles	<u>1,306,709</u>	<u>-</u>	<u>-</u>	<u>1,306,709</u>
Total capital assets, being depreciated	15,179,727	9,425,962	-	24,605,689
<b>Less accumulated depreciation:</b>				
Buildings and improvements	4,650,920	616,545	-	5,267,465
Furniture and equipment	1,295,764	166,280	-	1,462,044
Vehicles	<u>1,119,905</u>	<u>63,782</u>	<u>-</u>	<u>1,183,687</u>
Total accumulated depreciation	<u>7,066,589</u>	<u>846,607</u>	<u>-</u>	<u>7,913,196</u>
Total capital assets, being depreciated, net	<u>8,113,138</u>	<u>8,579,355</u>	<u>-</u>	<u>16,692,493</u>
Capital assets, net	<u>\$ 16,390,709</u>	<u>\$ 8,632,358</u>	<u>\$ 7,172,138</u>	<u>\$ 17,850,929</u>

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Bond issuance costs	\$ 213,019	\$ -	\$ -	\$ 213,019
Less accumulated amortization	<u>16,864</u>	<u>10,651</u>	<u>-</u>	<u>27,515</u>
Bond issuance costs, net	<u>\$ 196,155</u>	<u>\$ (10,651)</u>	<u>\$ -</u>	<u>\$ 185,504</u>

**Amortization**

Amortization expense has been charged as unallocated amortization.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**Due to/from other funds:**

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 6,515
Other governmental funds	General Fund	<u>10,284</u>
		<u>\$ 16,799</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund Transfers**

The General Fund transferred \$360,000 to the Athletics Fund and \$12,000 to the Food Service Fund to finance operations. In addition, the General Fund transferred \$114,509 to the Debt Service Fund for debt retirement.

**NOTE G—SHORT-TERM DEBT**

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2006 follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
State aid anticipation note				
2005/2006 2.00% due May 2006	\$ -	\$ 1,300,000	\$ 1,300,000	<u>\$ -</u>

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE H—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include capital leases, compensated absences, and termination benefits.

**Summary of Long-term Obligations**

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
<b>Governmental activities:</b>					
Bonds	\$ 9,846,765	\$ -	\$ 373,393	\$ 9,473,372	\$ 399,000
Unamortized premium	238,143	-	17,559	220,584	18,000
Other obligations	164,111	-	115,678	48,433	48,000
Compensated absences	695,700	177,750	83,152	790,298	-
	<u>\$ 10,944,719</u>	<u>\$ 177,750</u>	<u>\$ 589,782</u>	<u>\$ 10,532,687</u>	<u>\$ 465,000</u>

General obligation bonds consist of the following:

2003 School Building and Site Bond payable  
in annual installments ranging from  
\$385,000 to \$630,000 due May 2007 to  
2019; plus interest ranging from 2.25% to  
5.25% payable semi-annually

\$ 9,310,000

Durant obligations payable in annual installments  
ranging from \$19,430 to \$91,688 including  
interest at 4.76% due May 2007 to 2013.  
The School District is only obligated to  
make the annual payments to the extent of  
annual State of Michigan state school aid  
appropriations.

163,372

Total bonded debt

9,473,372

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE H—LONG-TERM OBLIGATIONS—Continued**

**Summary of Long-term Obligations—Continued**

2003 School Building and Site Bond premium	\$ 220,584
Other obligations	
1996 Energy note payable in quarterly installments of \$7,946 including interest at 5%; final payment due July 2006	7,900
Note payable in semi-annual installments of \$41,350 including interest at 4%; final payment due July 2007	<u>40,533</u>
Total other obligations	48,433
Compensated absences	<u>790,298</u>
	<u><u>\$ 10,532,687</u></u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligation.

The annual requirements of principal and interest to amortize bonded debt, Energy note payable, and a note payable outstanding as of June 30, 2006 follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 465,000	\$ 412,078	\$ 877,078
2008	419,698	401,889	821,587
2009	435,398	389,039	824,437
2010	456,131	371,506	827,637
2011	476,899	353,138	830,037
2012-2016	2,686,218	1,479,585	4,165,803
2017-2021	3,142,441	889,834	4,032,275
2022-2025	<u>1,440,020</u>	<u>151,201</u>	<u>1,591,221</u>
	<u><u>\$ 9,521,805</u></u>	<u><u>\$ 4,448,270</u></u>	<u><u>\$ 13,970,075</u></u>

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE I—EMPLOYEE BENEFITS**

***Employee Retirement System – Defined Benefit Plan***

**Plan description** – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems  
Michigan Public School Employees Retirement System  
P.O. Box 30171  
Lansing Michigan 48909  
1-800-381-5111

**Funding policy** – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 and December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006 was 16.34 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2006, 2005, 2004 were approximately \$1,961,000, \$1,811,000, and \$1,612,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

**Other post-employment benefits** – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Ludington Area School District  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2006

**NOTE J—CONTINGENCIES**

**Contingencies**

- **Federal Programs** – The School District participates in federally-assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**NOTE K—OTHER INFORMATION**

**Economic Dependence** – Prior years' revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 40 percent of General Fund revenues.

**Risk Management** – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

**NOTE L—SUBSEQUENT EVENT**

In August 2006, the School District received the proceeds of a \$1,000,000 State of Michigan (state) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2007 and bears interest at the rate of 3.68 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit and resources of the School District.



## **REQUIRED SUPPLEMENTARY INFORMATION**

Ludington Area School District  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

General Fund  
Year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Local sources	\$ 10,814,016	\$ 11,177,701	\$ 11,226,420	\$ 48,719
State sources	8,089,443	7,900,591	7,874,098	(26,493)
Federal sources	933,519	1,146,815	1,065,575	(81,240)
Incoming transfers and other transactions	381,572	1,873,880	574,227	(1,299,653)
Total revenues	20,218,550	22,098,987	20,740,320	(1,358,667)
EXPENDITURES				
Instruction				
Basic programs	11,077,229	11,332,804	11,336,930	(4,126)
Added needs	3,316,030	3,286,645	3,390,970	(104,325)
Support services				
Pupil	598,276	602,101	585,314	16,787
Instructional staff	492,615	503,115	446,101	57,014
General administration	285,267	269,928	256,247	13,681
School administration	1,262,912	1,226,457	1,142,998	83,459
Business	506,148	502,248	523,212	(20,964)
Operations and maintenance	2,032,178	2,123,778	2,028,284	95,494
Pupil transportation services	822,255	842,255	828,613	13,642
Central	61,200	86,800	73,360	13,440
Community services	68,996	68,996	66,721	2,275
Outgoing transfers and other transactions	475,000	1,828,000	486,509	1,341,491
Total expenditures	20,998,106	22,673,127	21,165,259	1,507,868
Excess (deficiency) of revenues over (under) expenditures	\$ <u>(779,556)</u>	\$ <u>(574,140)</u>	(424,939)	\$ <u>149,201</u>
Fund balance at July 1, 2005			<u>2,509,748</u>	
Fund balance at June 30, 2006			\$ <u><u>2,084,809</u></u>	

Ludington Area School District  
**SINGLE AUDIT OF FEDERAL  
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and  
Independent Auditors' Reports

June 30, 2006

## CONTENTS

### FINANCIAL REPORTS AND INDEPENDENT AUDITORS' REPORTS

#### INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	3
---	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	4
---	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	6
--	---

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	9
--	---

SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	10
---	----

#### CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	14
---	----

CORRECTIVE ACTION PLAN.....	16
-----------------------------	----

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 18, 2006

Board of Education  
Ludington Area School District  
Ludington, Michigan

We have audited the financial statements of Ludington Area School District as of and for the year ended June 30, 2006 and have issued our report thereon dated September 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

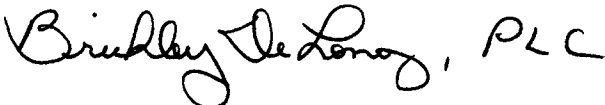
In planning and performing our audit, we considered Ludington Area School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Ludington Area School District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described as Findings 1 and 2 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

***Compliance***

As part of obtaining reasonable assurance about whether Ludington Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 18, 2006

Board of Education  
Ludington Area School District  
Ludington, Michigan

### *Compliance*

We have audited the compliance of Ludington Area School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Ludington Area School District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ludington Area School District's management. Our responsibility is to express an opinion on Ludington Area School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ludington Area School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Ludington Area School District's compliance with those requirements.

As described in Finding 3 in Part C of the accompanying Schedule of Findings and Questioned Costs, Ludington Area School District did not comply with requirements regarding the allowable costs/cost principles requirement that are applicable to its U.S. Department of Education Title I program. Compliance with such requirements is necessary, in our opinion, for Ludington Area School District to comply with requirements applicable to that program.

In our opinion, except for noncompliance described in the preceding paragraph, Ludington Area School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Board of Education  
September 18, 2006  
Page 2

***Internal Control Over Compliance***

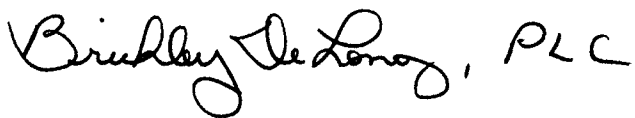
The management of Ludington Area School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Ludington Area School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of Ludington Area School District as of and for the year ended June 30, 2006 and have issued our report thereon dated September 18, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

Ludington Area School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement Program or award amount	Accrued revenue July 1, 2005	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued revenue June 30, 2006
					Prior year(s)	Current year	Total	
<b><i>U.S. Department of Education</i></b>								
Alcohol Abuse Reduction Grant Q184A050316	84.184A	\$ 287,495	\$ -	\$ 144,000	\$ -	\$ 201,660	\$ 201,660	\$ 57,660
Passed through Michigan Department of Education								
Title I	84.010							
515300405		544,085	36,075	36,075	544,085	-	544,085	-
515300506		29,927	-	29,927	-	29,927	29,927	-
615300506		523,436	-	477,278	-	523,436	523,436	46,158
		<u>1,097,448</u>	<u>36,075</u>	<u>543,280</u>	<u>544,085</u>	<u>553,363</u>	<u>1,097,448</u>	<u>46,158</u>
Drug Free Schools and Communities Act	84.186							
528600405		10,942	401	401	10,942	-	10,942	-
528600506		6,192	-	4,820	-	6,192	6,192	1,372
628600506		17,403	-	4,807	-	17,403	17,403	12,596
		<u>34,537</u>	<u>401</u>	<u>10,028</u>	<u>10,942</u>	<u>23,595</u>	<u>34,537</u>	<u>13,968</u>
Title V LEA Allocation	84.298							
602500506		4,229	-	4,229	-	4,229	4,229	-
		<u>4,229</u>	<u>-</u>	<u>4,229</u>	<u>-</u>	<u>4,229</u>	<u>4,229</u>	<u>-</u>
Technology Literacy Challenge Grants	84.318							
642900506		9,765	-	9,765	-	9,765	9,765	-
		<u>9,765</u>	<u>-</u>	<u>9,765</u>	<u>-</u>	<u>9,765</u>	<u>9,765</u>	<u>-</u>
Improving Teacher Quality	84.367							
505200405		155,495	25,207	25,207	155,495	-	155,495	-
505200506		6,045	-	6,045	-	6,045	6,045	-
605200506		158,278	-	111,964	-	158,278	158,278	46,314
		<u>319,818</u>	<u>25,207</u>	<u>143,216</u>	<u>155,495</u>	<u>164,323</u>	<u>319,818</u>	<u>46,314</u>
Total passed through Michigan Department of Education		1,465,797	61,683	710,518	710,522	755,275	1,465,797	106,440



Ludington Area School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement Program or award amount	Accrued revenue July 1, 2005	Cash/ payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued revenue June 30, 2006
					Prior year(s)	Current year	Total	
U.S. Department of Education—Continued								
Passed through Mason-Lake Intermediate School District IDEA 101-476 Flow Through 504500405	84.027	\$ 32,033	\$ -	\$ 32,033	\$ -	\$ 32,033	\$ 32,033	\$ -
Total U.S. Department of Education		1,785,325	61,683	886,551	710,522	988,968	1,699,490	164,100
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
National School Lunch	10.550							
Entitlement Commodities		31,398	-	31,398	-	31,398	31,398	-
Bonus Commodities		1,274	-	1,274	-	1,274	1,274	-
		32,672	-	32,672	-	32,672	32,672	-
Child Nutrition Cluster Breakfast	10.553							
051970		4,458	-	4,458	-	4,458	4,458	-
061970		49,887	-	49,887	-	49,887	49,887	-
		54,345	-	54,345	-	54,345	54,345	-

Ludington Area School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED**  
For the year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement Program or award amount	Accrued revenue July 1, 2005	Cash/ payments in kind received (cash basis)	Prior year(s)	Expenditures (accrual basis) Current year		Total	Accrued revenue June 30, 2006
<i>U.S. Department of Agriculture—Continued</i>									
Passed through Michigan Department of Education—Continued									
All Lunches	10.555								
051950		\$ 3,851	\$ -	\$ 3,851	\$ -	\$ 3,851	\$ 3,851		\$ -
061950		35,228	-	35,228	-	35,228	35,228		-
Free and Reduced									
051960		22,079	-	22,079	-	22,079	22,079		-
061960		199,043	-	199,043	-	199,043	199,043		-
		<u>260,201</u>	<u>-</u>	<u>260,201</u>	<u>-</u>	<u>260,201</u>	<u>260,201</u>		<u>-</u>
Total Child Nutrition Cluster		<u>314,546</u>	<u>-</u>	<u>314,546</u>	<u>-</u>	<u>314,546</u>	<u>314,546</u>		<u>-</u>
Total U.S. Department of Agriculture		347,218	-	347,218	-	347,218	347,218		-
<i>U.S. Department of Health and Human Services</i>									
Passed through Mason-Lake Intermediate School District									
Medical Assistance Program Title XIX 393	93.778	<u>17,311</u>	<u>-</u>	<u>17,311</u>	<u>-</u>	<u>17,311</u>	<u>17,311</u>		<u>-</u>
TOTAL FEDERAL ASSISTANCE		\$ 2,149,854	\$ 61,683	\$ 1,251,080	\$ 710,522	\$ 1,353,497	\$ 2,064,019		\$ 164,100

Ludington Area School District  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2006

**Notes:**

1. Please see the financial statements footnotes for the significant accounting policies used in the preparation of this schedule.
2. Management has utilized the Grant Section Auditors Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal source per governmental funds financial statements and expenditures per single audit report schedule of federal awards.

Revenues from federal sources per June 30, 2006  
financial statements

General Fund	\$ 1,065,575	
Other governmental funds (includes Food Service Fund)	<u>347,217</u>	1,412,792

Less state grants for medicaid included in federal revenues in the financial statements	<u>(59,295)</u>
--	-----------------

Expenditures per single audit report Schedule of Expenditures of Federal Awards	<u>\$ 1,353,497</u>
--	---------------------

Ludington Area School District  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year ended June 30, 2006

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Ludington Area School District.
2. *Two* reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These reportable conditions are not reported as material weaknesses.
3. There were *no* instances of noncompliance material to the financial statements of Ludington Area School District as disclosed during the audit and as reported in Part B of this schedule.
4. There were *no* reportable conditions disclosed by the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Ludington Area School District expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Education</i>	
Title I	84.010
Alcohol Abuse Reduction Grant	84.184A

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Ludington Area School District was not determined to be a low-risk auditee.

Ludington Area School District  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
Year ended June 30, 2006

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**COMPLIANCE**

NONE

**REPORTABLE CONDITIONS**

**Fiscal 2006 Finding No. 1: Property Tax Depositing Procedures**

*Condition:* Numerous property tax receipts aggregating approximately \$1,100,000 for the debt service funds and the sinking fund were improperly deposited into the General Fund investment account. The property taxes were later transferred back at various dates during the fiscal year ended June 30, 2006 to the respective debt service fund and bond sinking fund, however, no investment income earned thereon was transferred to such funds.

*Effect:* These property tax revenues were levied for restricted purposes, and they are not available for any other purpose.

*Recommendation:* Property tax revenues should be deposited into the appropriate bank accounts when received.

*Questioned Costs:* None

*School District Response:* We have our accounts in separate banks, as small towns often do in order to reward banks doing business locally, which is the cause of this issue. We will request that the municipalities issue separate checks for the sinking and building and site fund distributions in the future. Meanwhile, we will establish separate accounts at the bank which maintains our General Fund account. Single checks written for multiple funds will henceforth be deposited into these accounts and periodically transferred to the other bank.

**Fiscal 2006 Finding No. 2: Cash Disbursement Approval Procedures**

*Condition:* Cash disbursements are not approved by the Board of Education prior to the release of the cash disbursement checks.

*Effect:* School District funds could be released prior to Board of Education authorization.

*Recommendation:* The Board of Education should approve expenditures prior to the release of the cash disbursement checks.

*Questioned Costs:* None

*School District Response:* While we acknowledge the technical accuracy of this finding, we will decline to comply until such time as it is a legal requirement for us to do so. This is a small town, and many of our local vendors depend on prompt payment. We have rigorous policies regarding appropriate expenditures. Every expenditure is authorized by an administrator. Every expenditure is reviewed by the Board. Our treatment in this regard has not been a source of problem in the past. The recommendation does not afford any more scrutiny than our current method.

Ludington Area School District  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED**  
Year ended June 30, 2006

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**COMPLIANCE**

*U.S. Department of Education*

**Fiscal 2006 Finding No. 3: Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 51530 0506 and 61530 0506

Award Year End: September 30, 2006

*Specific Requirement:* Allowable Costs/Cost Principles

*Criteria:* The cost principle of OMB Circular A-87 requires, "... Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

*Condition:* We noted three salaried employees, of whose semi-annual time certification records did not agree with actual time and services provided. The employees' time certification documents indicated that the employees provided Title I services at a different building than the actual services and service location. Upon further review of other administration records, it appears the employees completed the semi-annual time certifications using the prior year certification form, and the form was not updated to agree with the current year Title I services and location.

*Questioned Costs:* \$146,757

*Context:* There were 20 employees for which Title I time certification documents were required.

*Effect:* The salaries and benefits charged to the grant for the employee could be disallowed.

*Recommendation:* The School District should require all employees who fall under OMB Circular A-87 requirements for documenting time charged to federal award programs to prepare the required documentation.

*School District Response:* Effective August 15, 2006, the School District's program directors will review all time certification documents to determine that such documents are completed and in compliance with OMB Circular A-87.

**REPORTABLE CONDITIONS**

NONE

## **CLIENT DOCUMENTS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

September 18, 2006

Michigan Department of Education  
Lansing, Michigan

Ludington Area School District respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2005 dated August 25, 2005.

**B. FINDINGS—FINANCIAL STATEMENT AUDIT**

**COMPLIANCE**

There were *no* compliance findings.

**REPORTABLE CONDITIONS**

**Fiscal 2005 Finding No. 1: Payroll Time and Effort Allocation Records**

*Condition:* As noted in Fiscal 2005 Finding No. 2 below, the School District did not have time and effort records to support Title I teacher aide expenditure allocations.

*Recommendation:* Time records documenting time allocation should be generated and maintained for employees whose salaries and wages are being allocated among grants.

*Current Status:* See Finding No. 3 in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 for a similar finding noted.



**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS**

**COMPLIANCE**

**Fiscal 2005 Finding No. 2: Title I Time and Effort Reporting**

CFDA: 84.010

Award Number: 415300405 and 515300405

Award Year Ended: June 30, 2005

*Condition:* Time and effort distribution records were not maintained for certain Title I teacher aides. Allocation of Title I teacher aide expenditures were based on management's knowledge of such aide activities; however, there was no required supporting documentation.

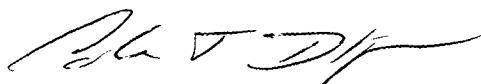
*Recommendation:* Time and effort records as required by federal regulations should be generated and maintained.

*Current Status:* See Finding No. 3 in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 for a similar finding noted.

**REPORTABLE CONDITIONS**

See Finding 1 in Part B above.

Sincerely,



Calvin DeKuiper  
Superintendent

## **CORRECTIVE ACTION PLAN**

September 18, 2006

Michigan Department of Education  
Lansing, Michigan

Ludington Area School District respectfully submits the following Corrective Action Plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Brickley DeLong, PLC  
P.O. Box 999  
Muskegon, Michigan 49443

Audit period: June 30, 2006

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2006 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

### **B. FINDINGS—FINANCIAL STATEMENT AUDIT**

#### **COMPLIANCE**

There were *no* compliance findings.

#### **REPORTABLE CONDITIONS**

##### **Fiscal 2006 Finding No. 1: Property Tax Depositing Procedures**

*Recommendation:* Property tax revenues should be deposited into the appropriate bank accounts when received.

*Action Taken:* We have our accounts in separate banks, as small towns often do in order to reward banks doing business locally, which is the cause of this issue. We will request that the municipalities issue separate checks for the sinking and building and site fund distributions in the future. Meanwhile, we will establish separate accounts at the bank which maintains our General Fund account. Single checks written for multiple funds will henceforth be deposited into these accounts and periodically transferred to the other bank.

## **B. FINDINGS—FINANCIAL STATEMENT AUDIT**

### **REPORTABLE CONDITIONS—Continued**

#### **Fiscal 2006 Finding No. 2: Cash Disbursement Approval Procedures**

*Recommendation:* The Board of Education should approve expenditures prior to the release of the cash disbursement checks.

*Action Taken:* While we acknowledge the technical accuracy of this finding, we will decline to comply until such time as it is a legal requirement for us to do so. This is a small town, and many of our local vendors depend on prompt payment. We have rigorous policies regarding appropriate expenditures. Every expenditure is authorized by an administrator. Every expenditure is reviewed by the Board. Our treatment in this regard has not been a source of problem in the past. The recommendation does not afford any more scrutiny than our current method.

## **C. FINDINGS—MAJOR FEDERAL AWARD PROGRAM AUDITS**

### **COMPLIANCE**

#### *U.S. Department of Education*

#### **Fiscal 2006 Finding No. 3: Title I, Part A**

#### **Allowable Costs/Cost Principles**

*Recommendation:* The School District should require all employees who fall under OMB Circular A-87 requirement for documenting time charged to federal award programs to prepare the required documentation.

*Action Taken:* Effective August 15, 2006, the School District's program directors will review all time certification documents to determine that such documents are completed and in compliance with OMB Circular A-87.

Michigan Department of Education  
September 18, 2006  
Page 3

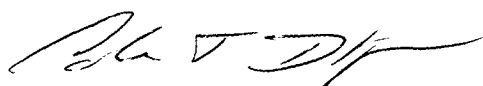
**C. FINDINGS—MAJOR FEDERAL AWARD PROGRAM AUDITS—Continued**

**REPORTABLE CONDITIONS—Continued**

There were *no* reportable conditions.

If the Michigan Department of Education has questions regarding this plan, please call Calvin DeKuiper at (231) 845-7303.

Sincerely,

A handwritten signature in black ink, appearing to read 'Calvin DeKuiper', with a stylized flourish at the end.

Calvin DeKuiper  
Superintendent

FORM **SF-SAC**  
(5-2004)U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2004, 2005, or 2006**

Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**Federal Audit Clearinghouse**  
1201 E. 10th Street  
Jeffersonville, IN 47132**GENERAL INFORMATION (To be completed by auditee, except for Items 4 and 7)****1. Fiscal period ending date for this submission**Month Day Year  
06 / 30 / 2006Fiscal Period End Dates Must  
Be In 2004, 2005, or 2006**2. Type of Circular A-133 audit**1 ☒ Single audit 2 ☐ Program-specific audit**3. Audit period covered**1 ☒ Annual 2 ☐ Biennial 3 ☐ Other —  Months**4. FEDERAL  
GOVERNMENT  
USE ONLY**Date received by  
Federal clearinghouse**5. Auditee Identification Numbers****a. Primary Employer Identification Number (EIN)**

3 8 - 6 0 0 2 6 2 1

**b. Are multiple EINs covered in this report?** 1 ☐ Yes 2 ☒ No**c. If Part I, Item 5b = "Yes," complete Part I, Item 5c on the continuation sheet on Page 4.****d. Data Universal Numbering System (DUNS) Number**

0 5 - 3 1 0 - 4 7 3 3

**e. Are multiple DUNS covered in this report?** 1 ☐ Yes 2 ☒ No**f. If Part I, Item 5e = "Yes," complete Part I, Item 5f on the continuation sheet on Page 4.****6. AUDITEE INFORMATION****a. Auditee name**

LUDINGTON AREA SCHOOL DISTRICT

**b. Auditee address (Number and street)**

809 E. TINKHAM AVENUE

City

LUDINGTON

State

ZIP + 4 Code

MI

4 9 4 3 1 -

**c. Auditee contact**

Name

CAL DEKUIPER

Title

SUPERINTENDENT

**d. Auditee contact telephone**

( 231 ) 845 — 7303

**e. Auditee contact FAX**

( ) —

**f. Auditee contact E-mail****g. AUDITEE CERTIFICATION STATEMENT** — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Signature of certifying official

Date

Month Day Year

Printed Name of certifying official

CALVIN T. DEKUIPER

Printed Title of certifying official

SUPERINTENDENT

**7. AUDITOR INFORMATION (To be completed by auditor)****a. Auditor name**

BRICKLEY DELONG, PLC

**b. Auditor address (Number and street)**

316 MORRIS AVENUE

City

MUSKEGON

State

ZIP + 4 Code

MI

4 9 4 4 0 -

**c. Auditor contact**

Name

TIMOTHY D. ARTER

Title

PARTNER

**d. Auditor contact telephone**

( 231 ) 726 — 5800

**e. Auditor contact FAX**

( 231 ) 722 — 0260

**f. Auditor contact E-mail**

TARTER@BRICKLEYDELONG.COM

**9. AUDITOR STATEMENT** — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor

Date

Month Day Year

11 / 01 / 06

for Brickley DeLong, PLC

**PART II****FINANCIAL STATEMENTS (To be completed by auditor)****1. Type of audit report**Mark either: 1 ☒ Unqualified opinion **OR**any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☒ No**3. Is a reportable condition disclosed?**1 ☒ Yes 2 ☐ No – *SKIP to Item 5***4. Is any reportable condition reported as a material weakness?**1 ☐ Yes 2 ☒ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**PART III****FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))**

\$ 300,000

**3. Did the auditee qualify as a low-risk auditee? (§ .530)**1 ☐ Yes 2 ☒ No**4. Is a reportable condition disclosed for any major program? (§ .510(a)(1))**1 ☐ Yes 2 ☒ No – *SKIP to Item 6***5. Is any reportable condition reported as a material weakness? (§ .510(a)(1))**1 ☐ Yes 2 ☐ No**6. Are any known questioned costs reported? (§ .510(a)(3) or (4))**1 ☒ Yes 2 ☐ No**7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development83 ☐ Federal Emergency Management Agency43 ☐ National Aeronautics and Space Administration96 ☐ Social Security Administration10 ☐ Agriculture39 ☐ General Services Administration89 ☐ National Archives and Records Administration19 ☐ U.S. Department of State23 ☐ Appalachian Regional Commission93 ☐ Health and Human Services05 ☐ National Endowment for the Arts20 ☐ Transportation11 ☐ Commerce97 ☐ Homeland Security06 ☐ National Endowment for the Humanities21 ☐ Treasury94 ☐ Corporation for National and Community Service03 ☐ Institute of Museum and Library Services47 ☐ National Science Foundation82 ☐ United States Information Agency12 ☐ Defense15 ☐ Interior07 ☐ Office of National Drug Control Policy64 ☐ Veterans Affairs84 ☐ Education16 ☐ Justice59 ☐ Small Business Administration00 ☒ **None**81 ☐ Energy17 ☐ Labor☐ Other – *Specify:*66 ☐ Environmental Protection Agency09 ☐ Legal Services Corporation

Each agency identified is required to receive a copy of the reporting package.

In addition, one copy each of the reporting package is required for:

- the Federal Audit Clearinghouse archives ☒
- and, if not marked above, the Federal cognizant agency ☐

Count total number of boxes marked above and submit this number of reporting packages . . . .

1



## FEDERAL PROGRAMS - Continued

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS					
CFDA Number		Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) (a)	Audit finding reference number(s) (b)
Federal Agency Prefix <sup>1</sup> (a)	Extension <sup>2</sup> (b)					Major program (g)	If yes, type of audit report (h)		
8 4	184A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ALCOHOL ABUSE REDUCTION	\$ 201,660.00	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	U	O	N/A
8 4	010	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE I	\$ 553,363.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	Q	B	3
8 4	186	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DRUG FREE SCHOOLS AND COMMUNITIES ACT	\$ 23,595.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V LEA ALLOCATION	\$ 4,229.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TECHNOLOGY LITERACY CHALLENGE	\$ 9,765.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IMPROVING TEACHER QUALITY	\$ 164,323.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
8 4	027	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	IDEA	\$ 32,033.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL LUNCH	\$ 32,672.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER	\$ 54,345.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
1 0	555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	CHILD NUTRITION CLUSTER	\$ 260,201.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 1,353,497.00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

- A. Activities allowed or unallowed  
 B. Allowable costs/cost principles  
 C. Cash management  
 D. Davis - Bacon Act  
 E. Eligibility  
 F. Equipment and real property management  
 G. Matching, level of effort, earmarking  
 H. Period of availability of Federal funds  
 I. Procurement and suspension  
 J. Program income  
 K. Real property acquisition and relocation assistance  
 L. Reporting  
 M. Subrecipient monitoring  
 N. Special tests and provisions  
 O. None  
 P. Other

<sup>5</sup> N/A for NONE

### Item 5 Continuation Sheet

**c.** List the multiple Employer Identification Numbers (EINs) covered in this report.

**f.** List the multiple DUNS covered in the report.

[illegible]

IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS.



**FEDERAL PROGRAMS - Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS					
Federal Agency Prefix <sup>1</sup>	CFDA Number Extension <sup>2</sup>	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)		Type(s) of compliance requirement(s) <sup>4</sup> (a)	Audit finding reference number(s) <sup>5</sup> (b)
						Major program	If yes, type of audit report <sup>3</sup> (h)		
9 3	.778	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	MEDICAL ASSISTANCE PROGRAM TITLE XIX	\$ 17,311 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No			
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 1,353,497 .00	IF ADDITIONAL LINES ARE NEEDED, PLEASE PHOTOCOPY THIS PAGE, ATTACH ADDITIONAL PAGES TO THE FORM, AND SEE INSTRUCTIONS				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

- <sup>5</sup> N/A for NONE
- |                                    |  |  |                                 |
|------------------------------------|--|--|---------------------------------|
| A. Activities allowed or unallowed | E. Eligibility                             | I. Procurement and suspension and debarment            | L. Reporting                    |
| B. Allowable costs/cost principles | F. Equipment and real property management  | J. Program income                                      | M. Subrecipient monitoring      |
| C. Cash management                 | G. Matching, level of effort, earmarking   | K. Real property acquisition and relocation assistance | N. Special tests and provisions |
| D. Davis - Bacon Act               | H. Period of availability of Federal funds |  | O. None                         |
|                                    |  |  | P. Other                        |

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 18, 2006

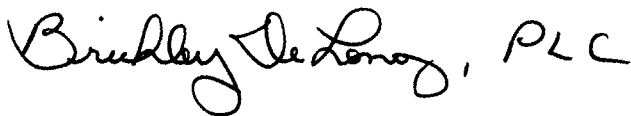
Board of Education  
Ludington Area School District  
809 E. Tinkham  
Ludington, Michigan

In planning and performing our audit of the financial statements of Ludington Area School District for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Ludington Area School District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## REPORTABLE CONDITIONS

Recommendation 1: Property tax revenues should be deposited into the appropriate funds when received.

During our tests, we noted that numerous debt service funds and sinking fund property tax receipts aggregating approximately \$1,100,000 were improperly deposited into the General Fund investment account. The property taxes were later transferred back at various dates throughout the year, without any investment income earned thereon, to the respective debt service fund and bond sinking fund.

The timely deposit of restricted property tax receipts into their respective debt service funds and sinking fund would ensure that such receipts are available for their restricted purposes.

Recommendation 2: The Board of Education should approve expenditures prior to the release of cash disbursement checks.

During our testing, we noted that cash disbursements are not approved by the Board of Education until after the checks are released.

The Board of Education approval prior to the release of cash disbursement checks would allow for Board of Education review and authorization before School District funds are expended. However, the Board of Education may wish to adopt a policy authorizing payment of specific obligations received and due prior to the next scheduled Board of Education meeting.